

# **Arkansas Development Finance Authority**

## **Investment Policy - General Fund**

**Adopted by the Board of Directors**

**March 21, 2002**

**(REPLACES ALL PREVIOUS POLICIES, INCLUDING  
THAT DATED OCTOBER 21, 1999 and MAY 1997)**

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## **I. PURPOSE.**

The purpose of this investment policy is to establish guidelines by which funds, not otherwise required by Arkansas Development Finance Authority ("ADFA" or the "Authority") to meet operating and bond issuance needs, can best be invested to earn the maximum return while still maintaining sufficient liquidity. Because investable funds represent a substantial portion of total general fund assets, it is imperative to have an investment policy statement, which directs the deployment of these funds in a manner that is consistent with the overall strategy and risk profile of the Authority.

## **II. OBJECTIVES.**

- A. To maintain liquidity which is sufficient to meet any reasonable operating and bond issuance needs.
- B. To insure safety of principal and interest through investment in low risk securities.
- C. To maximize income consistent with the company's liquidity and safety requirements, while providing a suitable balance of quality, and diversification to the Authority's assets.

## **III. INVESTMENT AUTHORIZATION.**

The Board of Directors of the Authority will appoint an Investment Committee (the Committee) consisting of the Authority's President, the Vice President for Finance (VP for Finance) and a minimum of two (2) board members. The Investment Committee will meet as needed to review the existing investment securities portfolio and to discuss the Authority's outgoing investment strategies.

The VP for Finance will have primary responsibility for day-to-day management of the investment portfolio. The Vice President of Internal Audit (VP for Audit) will be responsible for monitoring compliance with all provisions contained in this policy.

Investment transactions may be approved by the President or VP for Finance, up to the limits specified by this Policy. In the absence of either the President or the VP for Finance, an outside director who serves on the Committee or the Chairman of the Board must approve the transaction. Investment transactions in excess of established Policy limits must be approved jointly by the President and VP for Finance or a majority of the outside directors on the Committee. Before an investment transaction is accepted, a minimum of three bids must be received.

An investment transaction form will be completed whenever securities are purchased or sold. The form will provide the details of the transaction, including broker, trade date, settlement date, amount of transaction and yield. The form will provide for the appropriate signature(s) of authorization. This form will be forwarded to the VP for Audit for review of compliance with the investment policy.

#### **IV. ACCEPTABLE PORTFOLIO INVESTMENTS.**

The Authority will limit its investments to the following types of securities:

- A. U.S. Government Securities;
- B. U.S. Federal Agency Securities;
- C. Mortgage-Backed Securities issued by:
  - (1) Federal National Mortgage Association;
  - (2) Government National Mortgage Association;
  - (3) Federal Home Loan Mortgage Corporation; or
  - (4) Other Private Issuers-Security must be rated at least "AAA<sup>1</sup>;"
- D. State, County, and Municipal Securities:
  - (1) General Obligation Bonds;
  - (2) Industrial Development Revenue Bonds; and
  - (3) Municipal Revenue Bonds; and
- E. Domestic Certificates of Deposit and Money Market Funds

#### **V. ACCEPTABLE MATURITY RANGES AND DISTRIBUTIONS.**

The following represents acceptable maturity ranges, or, in the case of mortgage backed securities, average life, for each type of security:

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<sup>1</sup> The ratings referenced throughout this policy are according to Standard & Poor's. In the event the security is rated by another rating agency, the rating should be equivalent to that indicated here.

Type of Security	Fixed Rate (Years)	Variable Rate (Years)
U.S. Government Securities	0 to 7	10
U.S. Federal Agency Securities	0 to 7	10
Mortgage-Backed Securities	0 to 7	12
State, County and Municipal Securities	0 to 15	--
Domestic Certificates of Deposit and Money Market Funds	0 to 5	--

A balanced maturity distribution of the securities portfolio will be sought in order to minimize interest risk exposure. The maturity distribution, however, can fluctuate to take advantage of changing market conditions but will be maintained in line with general objectives.

## **VI. CREDIT CRITERIA AND SPECIFIC LIMITATIONS.**

### **A. U.S. Government Securities.**

Credit criteria analysis of U.S. Government securities is not required, since credit quality is inherent in the security. There will be no specific portfolio limitations of this type of security.

### **B. U.S. Federal Agency Securities.**

As with U.S. Treasury securities, it is not necessary to specify credit criteria for U.S. Federal Agency securities, since credit quality is inherent in the instruments. The Authority will have no specific limitations on federal agency securities, other than mortgage-backed securities, although a balanced diversification among the various government entities is recommended.

### **C. Mortgage-Backed Securities.**

Purchases of mortgage-backed securities will be made in government agency-issued pools or pools rated no less than "AAA." Diversification will be sought through the purchase of pools in different geographic locations. Performance of the mortgage-backed securities portfolio will be monitored on a quarterly basis.

#### **D. Municipal Securities.**

Municipal securities must be rated A or higher at the time of purchase. In-state municipal securities, which are non-rated, will only be purchased after the creditworthiness of the issuer has been established. Out-of-state non-rated bonds will not be purchased.

A concentration of holdings to one entity, one geographic area, or one local government subdivision should be avoided. If any municipal bond is downgraded below Baa prior to maturity, the bond will be targeted for sale and will be sold as soon as reasonably possible, in light of market conditions. Downgraded bonds should be brought to the attention of the Investment Committee.

#### **E. Domestic Certificates of Deposit and Money Market Funds.**

Unsecured investments in domestic certificates of deposit will be limited to a maximum of \$100,000 and will be permitted only in institutions with FDIC or NCUA (applicable to credit union deposits) insurance coverage. Any amounts above this level will require collateral equal to the excess portion. To minimize the risk of loss of interest, monthly payment of interest will be obtained whenever possible. Except under special circumstances, certificates of deposit will not be purchased from an institution with a net worth to asset ratio which is below regulatory minimums. If the financial condition of an institution deteriorates to below the minimum requirements during the term of a current investment, the deposit will be redeemed at maturity.

Investments in Money Market Funds will be used in conjunction with Certificates of Deposits to ensure the Authority maintains a sufficient level of liquidity.

### **VII. OTHER PORTFOLIO CHARACTERISTICS.**

#### **A. Portfolio Mix.**

The investment portfolio can comprise a large percentage of earning assets so portfolio income is a significant contributor to the earnings of the Authority. The ideal investment portfolio mix will provide the necessary degree of liquidity while maximizing interest within prescribed risk levels.

#### **B. Block Size.**

As a general rule, government and agency securities will be purchased in block sizes of \$500,000 and municipals in block sizes of \$100,000. However, purchases may be made in smaller or larger block sizes in order to take advantage

of a particularly attractive price as long as such purchases are in compliance with other guidelines of this policy.

#### **VIII. PROHIBITED TRANSACTIONS.**

The following is a list of securities that are unauthorized investments for the Authority. These securities may not be purchased unless the Investment Committee has evaluated all particular situations and given written approval for the purchase.

- A. Bonds rated less than "A" unless otherwise specified in this policy;
- B. Interest-rate futures contracts; and
- C. Other Non-Authority Qualified Issues.

#### **IX. APPROVED LIST OF SECURITIES DEALERS.**

On an annual basis, a list of authorized securities dealers will be submitted to the Board of Directors for approval. All transactions will normally be made on a delivery versus payment basis. Approved security dealers will be selected based upon the following:

- A. The ability of the securities dealer to fulfill its commitment as evidenced by its capital strength, liquidity, and operating results;
- B. The dealer's general reputation for financial stability and fair and honest dealings with customers; and
- C. The background and expertise of the securities dealer's sales representative with whom business will be conducted.

The standing of each dealer with the Arkansas Securities Commission will be reviewed on an annual basis before the firm is reaffirmed on the approved list of dealers.

#### **X. SAFEKEEPING OF SECURITIES.**

Except for certificates of deposit, all securities will be kept in safekeeping with the Federal Reserve, the safekeeping departments affiliated with the ADFA Board-approved trustees or one of the approved dealers referenced within this policy. Certificates of deposit may be held in safekeeping in the individual institution where the investment has been placed. Safekeeping receipts will be obtained to document the safekeeping of all investment securities.

## **XI. INVESTMENT AUTHORIZATION LIMITS.**

The investment limits of the President and the VP for Finance represent the funded amount of the transactions rather than the par amount. The authorization limits of the President or the VP for Finance is \$2,500,000 as reflected on Exhibit A. Investment transactions in excess of this amount must be approved jointly by the President and VP for Finance or a majority of the outside directors on the Committee.

## **XII. DIRECT LOANS AND USING GENERAL FUNDS AS COLLATERAL.**

Interim financing (i.e., bond anticipation notes) may be provided by the General Fund for loans approved by the Board of Directors. The financing may be provided directly by the General Fund or General Fund investments may serve as collateral to obtain other funding (i.e., Federal Home Loan Bank advance).

Upon approval by the Board of Directors, other loans may be funded on a case-by-case basis

## **XIII. OTHER.**

Transfers of assets representing the residual value of bond issues are precluded from the criteria outlined in this policy.

The Investment Committee of the Board of Directors has the authority to authorize transactions that do not adhere to this policy by a majority vote. This authorization should be documented in writing within the minutes of the committee meeting.

Adopted by the Board of Directors of the Arkansas Development Finance Authority this 21<sup>ST</sup> day of March 2002.

By: \_\_\_\_\_  
Freddie Mobley, Chair

ATTEST:

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Mac Dodson, President/Secretary